

Counterparts - ELM

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OF COUNSEL
URBAN A. LESTER

20359
RECORDATION NO 20359 -A
NOV 8 1996 1:40 PM

November 6, 1996

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D C 20423

Dear Mr. Williams

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a), are two (2) copies of a Equipment Mortgage, dated as of November 1, 1996, a primary document as defined in the Board's Rules for the Recordation of Documents, and two (2) copies of an Assignment of Rents and Leases, a secondary document related thereto

The names and addresses of the parties to the enclosed documents are

Equipment Mortgage

Borrower	Compass Rail II 555 California Street San Francisco, California 94104
Lender	Mitsui Leasing (U S A), Inc 200 Park Avenue New York, New York 10166

Mr. Vernon A. Williams
November 6, 1996
Page 2

Assignment of Rents and Leases

Borrower/Assignor Compass Rail II
555 California Street
San Francisco, California 94104

Lender/Assignee Mitsui Leasing (U S A), Inc
200 Park Avenue
New York, New York 10166

A description of the railroad equipment covered by the enclosed documents is set forth on Schedule I attached to the Equipment and the Assignment. The Lease of said railroad equipment is being filed concurrently herewith under Recordation Number 20358.

Also enclosed is a check in the amount of \$22 00 payable to the order of the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed document to the undersigned

Very truly yours,



Robert W Alvord

RWA/bg
Enclosures

SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C. 20425-0001

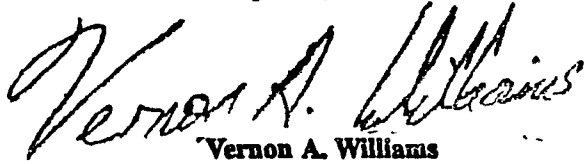
11/8/96

Robert W. Alvord
Alvord and Alvord
918 Sixteenth Street, NW., Ste. 200
Washington, DC., 20006-2973

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 11/8/96 at 1:00 PM, and assigned recordation number(s). 20353, 20359 20359 A and 20360.

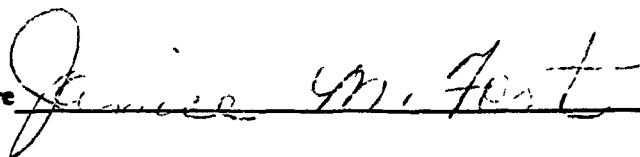
Sincerely yours,


Vernon A. Williams
Secretary

Enclosure(s)

\$ 89.00 The amount indicated at the left has been received in payment of a fee in connection with a document filed on the date shown. This receipt is issued for the amount paid and in no way indicates acknowledgment that the fee paid is correct. This is accepted subject to review of the document which has been assigned the transaction number corresponding to the one typed on this receipt. In the event of an error or any questions concerning this fee, you will receive a notification after the Commission has had an opportunity to examine your document.

Signature



20359
NOV 8 - 1996 - 1 10 PM

EQUIPMENT MORTGAGE

THIS EQUIPMENT MORTGAGE ("Mortgage") is granted as of November 1, 1996, by COMPASS RAIL II, a California corporation ("Borrower"), to MITSUI LEASING (U.S.A.), INC., a Delaware corporation ("Lender").

WHEREAS, Lender extended certain credit and other financial accommodations to Borrower pursuant to that certain Loan and Security Agreement of even date herewith (as amended, the "Loan Agreement"); and

WHEREAS, Borrower has agreed to grant to Lender the liens and security interests in the railcars described on Schedule 1 hereto (the "Railcars") and other personal property described herein;

NOW, THEREFORE, for and in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. COLLATERAL.

Section 1.1 Grant of Security Interest. As security for the Liabilities (as defined in the Loan Agreement), Borrower hereby grants to Lender a security interest in and chattel mortgage on all of the following:

(a) The Railcars, together with all accessories, equipment, parts and appurtenances appertaining or attached thereto, whether now owned or hereafter acquired, and all additions, improvements, accessions and accumulations to any and all of said equipment, including, without limitation, any and all substitutions, renewals or replacements of any of the foregoing, together with all the rents, issues, income, proceeds and avails therefrom but excluding parts owned by Lessee that can be removed without damage to the Equipment and which removal will not prevent the Equipment from being loaded and unloaded or from transporting the commodity for which it was built (collectively, the "Equipment");

(b) All proceeds (including, without limitation, insurance and indemnity payments) from the sale or loss or other disposition of the Equipment;

(c) All of Borrower's leases, assignments, usage agreements, management agreements, bailment agreements and any other arrangements to deliver possession relating to the Equipment, including, without limitation, the Lease (as defined in the Loan Agreement) (collectively, the "Leases"), whether now or hereafter existing, between the Borrower as lessor and other parties as lessees, users or otherwise (the "Lessees"), including, without limitation, (i) all rents thereunder, (ii) all claims for damages arising out of the breach of any Lease, (iii) the right, if any, to terminate any Lease, to perform thereunder and to compel performance of the terms thereof, (iv) the right to take possession of the Equipment and to use any and all of the Equipment, subject to the right

of the Lessees therein, (v) the right to make all waivers and agreements and to enter into any amendments relating to any Lease or any provision thereof, (vi) the right to take such action upon the occurrence of an event of default under any Lease, including, without limitation, the commencement, conduct and consummation of legal, administrative or other proceedings, as shall be permitted by any Lease or by law, and (vii) all other rights, claims, causes of action, if any, which Borrower may have against any Lessee with respect to any Lease including, without limitation, the right to exercise any options or remedies under such Leases and the right to enforce any indemnification provision under the Lease;

(d) All of Borrower's interest in any agreement relating to the maintenance, refurbishment or reconstruction of any of the Railcars, including without limitation, the Reconstruction Agreement (as defined in the Loan Agreement); and

(e) All books, records, reports and documents, in whatever form and wherever located relating in any way to the foregoing, including, without limitation, all maintenance records, plans, specifications, lease records and reports (the "Records").

All such Equipment, Leases, Records, agreements rights, claims and causes of action described in the immediately preceding clauses (a), (b), (c), (d) and (e) and proceeds with respect thereto are herein collectively referred to as the "Collateral."

Section 1.2. Representations and Warranties of Borrower. Borrower represents and warrants:

(a) That the Railcars are properly described and identified by serial, road or other identifying mark and number on Schedule 1 hereto and hereby made a part hereof.

(b) That all existing Leases are set forth on Schedule 2 hereto and have been collaterally assigned to Lender pursuant to that certain Assignment of Rents and Leases of even date herewith (the "Assignment").

Section 1.3. Loan Agreement. Borrower agrees to perform each and every obligation of Borrower under or pursuant to the Loan Agreement. To the extent there is a conflict between the terms of the Loan Agreement and the terms of this Assignment, the terms of the Loan Agreement shall control.

SECTION 2. DEFAULT

Section 2.1. Events of Default. The occurrence of any Event of Default under the Loan Agreement or the Assignment shall constitute an Event of Default hereunder.

SECTION 3. REMEDIES.

Section 3.1. Remedies. Upon the occurrence and during the continuance of any Event of Default, Lender may do any one or more of the acts set forth in the Loan Agreement in the Event of a Default thereunder or hereunder (but shall be under no obligation to do so), regarding the Collateral, or any portion

thereof. In the event that Lender exercises any of its rights under this Mortgage, all payments or proceeds received by Lender resulting from such exercise shall be applied in accordance with the terms of the Note.

SECTION 4. GENERAL.

Section 4.1. Rights Cumulative. Each and every power and remedy hereby specifically given to Lender shall be in addition to every other power and remedy hereby specifically given or now or hereafter existing at law or in equity, and each and every power and remedy may be exercised from time to time simultaneously and as often and in such order as may be deemed expedient by Lender. All such powers and remedies shall be cumulative, and the exercise of one shall not be deemed a waiver of the right to exercise any other or others. No delay or omission of Lender in the exercise of any such power or remedy and no renewal or extension of any payments due under the Loan Agreement shall impair any such power or remedy or shall be construed to be a waiver of any default or an acquiescence therein. Any extension of time for payment or other indulgence duly granted to Borrower shall not otherwise alter or affect Lender's rights or the Liabilities. Lender's acceptance of any payment after it shall have become due under the Loan Agreement shall not be deemed to alter or affect the Liabilities or Lender's rights hereunder with respect to any subsequent payments or default therein.

Section 4.2. Waiver. Except as otherwise provided in this Mortgage or in the Loan Agreement, Borrower, to the full extent permitted by law, hereby waives all statutory or other legal requirements for any notice of any kind, notice of intention to take possession of or to sell or lease the Collateral, and any other requirements as to the time, place and terms of the sale or lease thereof, and any other requirements with respect to the enforcement of Lender's rights under this Mortgage.

Section 4.3. Satisfaction of Mortgage and Termination of Mortgage. When all the Liabilities (other than the those solely under the Residual Sharing Agreement, as defined in the Loan Agreement) have been paid in full and the Notes have been canceled, Lender shall release the lien of this Mortgage with respect to the Collateral by an appropriate document in recordable form and thereupon this Mortgage shall be satisfied and void.

Section 4.4. Section Headings, Effect and Modification of Agreement. All section headings are inserted for convenience only and shall not affect any construction or interpretation of this Mortgage.

Section 4.5. Modifications. No variation or modification of this Mortgage and no waiver of any of its provisions or conditions shall be valid unless in writing and signed by duly authorized representatives of Lender and Borrower.

Section 4.6. Notices. Except as otherwise expressly herein, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered (i) three (3) days after deposit in the United States mails, with proper postage prepaid, (ii) when sent after receipt of confirmation or answerback if sent by telecopy, telex or other similar facsimile transmission, (iii) one (1) Business Day after deposited with a reputable overnight courier with all charges prepaid, or (iv) when delivered, if hand-delivered by messenger, all of which shall be properly addressed to the party to be notified and sent to the address or number indicated as follows:

If to Lender at:

MITSUI LEASING (U.S.A.), INC.
200 Park Avenue
New York, New York 10166
Attention: Lease Marketing Manager
Fax Number: 212-490-1684

with a copy to:

Seyfarth, Shaw, Fairweather & Geraldson
55 East Monroe Street, Suite 4200
Chicago, Illinois 60603
Attention: Richard Demarest Yant
Fax Number: 312-269-8869

If to Borrower at:

Compass Rail II
555 California Street, Suite 2810
San Francisco, CA 94104
Attention: President
Fax Number: 415-392-9142

or to such other address or number as either party designates to the other in the manner herein prescribed.

Section 4.7. Law Governing. The terms of this Mortgage and all rights and obligations hereunder shall be governed by the laws of New York without regard to conflicts of laws rules; provided, however, that Lender shall be entitled to all rights conferred by the filing, recording or deposit hereof in the appropriate office(s) pursuant to Section 11303 of the Interstate Commerce Act or in such other offices as may be appropriate in the jurisdiction in which the Equipment is operated.

Section 4.8. Counterparts. This Mortgage may be executed in several counterparts, all of which taken together shall constitute one and the same agreement.

Section 4.9. Successors and Assigns. This Mortgage shall be binding upon Borrower and inure to the benefit of Lender and its successors and assigns. Borrower may not assign or transfer its rights hereunder without the prior written consent of Lender.

Section 4.10. Severability. The provisions of this Mortgage are severable and if any clause or provision shall be held invalid and unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction or any other clause or provision of this Mortgage in any jurisdiction. Without limiting the generality of the foregoing, the

parties hereto intend that the security interest and chattel mortgage created by this Mortgage and securing the Liabilities shall be severable, and if any portion of the Liabilities shall be invalid, unenforceable or void under applicable law, then the security interest and chattel mortgage created by this Mortgage shall be invalid, unenforceable or void solely to the extent of such invalidity, unenforceability or avoidance of such portion of the Liabilities without rendering the remainder of the security interest and chattel mortgage created by this Mortgage unenforceable, invalid or void.

Section 4.11. Further Assurances. Borrower will, from time to time, do and perform any other act or acts and will execute, acknowledge, and deliver, and file, register, and record (and will re-file, re-register and re-record whenever required) any further instrument, including any extensions and renewals thereof, required by law or reasonably requested by Lender in order to confirm or further assure the interests of Lender hereunder.

Section 4.12. Non-Recourse. Borrower shall not be personally liable for payment of any liabilities secured by this Mortgage, and any action to enforce the obligations of Borrower to pay such liabilities shall be enforceable against Borrower only to the extent of its interest in the Collateral and as provided in the Loan Agreement.

IN WITNESS WHEREOF, Borrower has caused this Mortgage to be duly executed all as of the date first above written, and the undersigned signatories each hereby declare pursuant to 28 U.S.C. Section 1746 under penalty of perjury that the foregoing is a true and correct document and was executed on the date indicated below its signature.

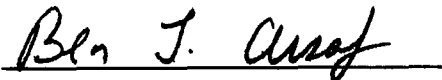
COMPASS RAIL II

By: 

Title: President

Date: November 6, 1996

ATTEST:

By: 

Title: Executive Vice President

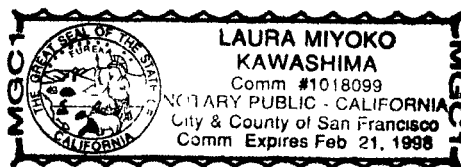
Date: November 6, 1996

STATE OF California
COUNTY OF San Francisco SS:

On this 6th day of November, 1996, before me personally appeared Stephen C. Bieneman to me personally known who, being by me duly sworn, says that he is the _____ President of COMPASS RAIL II, a California corporation, and that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Laura Miyoko Kawashima
Notary Public

(NOTARIAL SEAL)



My Commission Expires: _____

List of Schedules and Exhibits

Schedule 1	Railcars
Schedule 2	Lease

SCHEDULE I

EQUIPMENT

<u>NUMBER OF UNITS</u>		<u>CAR NUMBERS</u>		
72 Series 1100	BAR	1106	1178	1229
flatcars (built 1964)		1107	1179	1234
(convertible to log cars)		1108	1182	1235
		1109	1185	1237
		1110	1187	1238
		1116	1188	1239
		1120	1189	1240
		1121	1191	1243
		1123	1192	1247
		1124	1193	1248
		1128	1194	1249
		1130	1195	1252
		1131	1197	1253
		1143	1198	1255
		1144	1199	1256
		1147	1201	1257
		1151	1203	1259
		1153	1205	1261
		1156	1206	1263
		1158	1209	1264
		1165	1216	1266
		1169	1217	1267
		1172	1218	
		1173	1224	
		1176	1226	

<u>NUMBER OF UNITS</u>	<u>CAR NUMBERS</u>
13 Series 1268	BAR 1268
flatcars (built 1968)	1269
(convertible to log cars)	1270
	1271
	1272
	1273
	1274
	1275
	1276
	1277
	1281
	1282
	1283
25 Series 1268	BAR 1284
flatcars (built 1968)	1285
(convertible to log cars)	1287
(interchange condition)	1288
	1290
	1292
	1293
	1294
	1296
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SCHEDULE 2

LEASE

That certain Railroad Equipment Lease Agreement dated as of November 1, 1996 between Borrower, as lessor and Bangor & Aroostook Railroad Company, as Lessee.